



# Securing America's Future

## *A Budget that Works for Every Family*

### FACT SHEET ON THE FY 2002 BUDGET RESOLUTION

March 23, 2001

On February 27, 2001, President George W. Bush submitted a budget that built on the work of previous Republican-controlled Congresses. The President's proposals and reform initiatives reflect the limited government philosophy that has guided GOP budget-writing for a decade.

This week the House Budget Committee passed a budget resolution that follows the President's lead and tracks his vision of compassionate conservative government. The budget is a bold and responsible statement that places the concerns of hard-working American families ahead of the concerns of the Washington bureaucracy.

For more info on the budget resolution, go to  
[www.budget.house.gov](http://www.budget.house.gov)

- ▶ Republicans are committed to meeting the priorities of the American people: saving Social Security for seniors today and tomorrow, repaying debt, improving education, and returning tax overcharges.
- ▶ While Democrats advocate \$900 billion in new spending, Republicans will work to ensure government is fiscally responsible and holds the line on Washington bureaucracy.

Below are some highlights of the budget resolution:

#### **Maximum Debt Relief**

- ▶ The budget eliminates an historic **\$2.3 TRILLION in public debt by 2011**. As a result, the government's public debt would decline to 5 percent of the economy (GDP), its lowest level in more than 80 years. By comparison, public debt was 80 percent of GDP in 1950 (following World War II), 42 percent in 1990 (following the Cold War), and 35 percent as recently as 2000.
- ▶ By the numbers: fy2002—\$213 billion; 5-year—\$1.2 trillion; 10-year, \$2.34 trillion.

## **Tax Relief for Every Taxpayer**

- ▶ The budget allows taxpayers to keep roughly one-fourth of projected surpluses over the next 10 years (29 percent of \$5.61 trillion) through lower tax bills for all taxpayers. Overall, taxpayers will keep at least \$1.62 trillion of their earnings.
- ▶ It implements this tax reduction through four reconciliation bills with the possibility of additional tax relief based on the Congressional Budget Office's [CBO's] summer reestimate. It anticipates four pillars of the tax reduction package:
  - Retroactive marginal rate reduction, as already passed by the House.
  - Doubling the child tax credit.
  - Providing relief from the marriage penalty.
  - Eliminating the death tax.
- ▶ The potential additional tax reduction could include: availability of charitable deductions to non-itemizers; refundable tax credits for private health insurance; Medical Savings Account extension; Education Savings Account expansion and other education provisions; IRA deductibility increase; making the research and experimentation tax credit permanent; and capital gains rate reduction.
- ▶ By the numbers: FY2002–\$64 billion; 5-year–\$547 billion; 10-year–\$1.62 trillion.

### **The Benefits to Taxpayers**

- ▶ The tax relief plan will cut taxes for everyone who pays income taxes today.
- ▶ The greatest *percentage* reduction will go to the lowest-income families.
- ▶ Six million low income families will be removed from the tax rolls.
- ▶ Because the long economic expansion that began almost 10 years ago is slowing, elements of the tax cut (i.e., marginal rate reduction) *are made retroactive*.

## **Improved Education for Our Children**

- ▶ The budget makes a \$44.5 billion commitment to education in FY2002. It increases funding for the Department of Education by \$4.6 billion, an 11.5 percent increase.
- ▶ It also assumes sufficient funding in elementary and secondary education for the President's "No Child Left Behind" education reform plan. Key initiatives include:
  - A tripling of reading education funds, to \$900 million in 2002, and a total increase of \$5 billion over 5 years.
  - The provision of \$2.6 billion for States to improve teacher quality through high quality professional development, recruitment and retention activities.
  - Sufficient funds to help States develop annual assessments of students and establish strong accountability systems.
- ▶ **Special Education:** The budget creates a \$1.25-billion reserve fund for the Individuals with Disabilities Education Act Part B grants to States.
- ▶ **Pell Grants:** To provide financial assistance to low-income college students, the budget increases Pell Grants by \$1 billion.

- ▶ **Education Tax Proposals (part of tax relief assumptions):** The education tax proposals assumed in this budget—part of the President’s larger tax relief plan—would provide significant help to families. These proposals include the following:
  - A 10-fold increase in the annual contribution limit (from \$500 to \$5,000) for Education IRAs, providing about \$5.6 billion in tax relief over 10 years. Under this proposal, Education IRAs, now used only for higher education expenses, could also be used for K-12 costs.
  - A tax deduction for teachers that allows them to deduct up to \$400 to help defray the costs associated with out-of-pocket classroom expenses, such as books, school supplies, professional enrichment programs, and other training.
  - A full tax exemption for all qualified pre-paid tuition savings plans.
  - A provision to allow State private-activity bonds to be used for school construction and repair.

## **A Stronger National Defense**

- ▶ The GOP defense budget provides \$324.6 billion for protecting America’s interests. This represents a \$14.3-billion, or 4.6-percent, increase over fiscal year 2001.
- ▶ It provides the first down payment for the President’s plan to transform the U.S. military to meet the new threats of the post-Cold War world.
  - This includes \$2.6 billion for R&D in “leap-ahead” technologies to ensure U.S. superiority in speed, stealth, information, and firepower.
  - The investment would total \$20 billion over 5 years.
- ▶ By the numbers: fy2002—\$324.6 billion; 5-year—\$1.7 trillion; 10-year, \$3.7 trillion.
- ▶ **Addressing Immediate Needs:** The budget—consistent with the President’s recommendations—takes steps to address immediate needs:
  - Increase military pay and other compensation by \$1.4 billion in 2002. The pay raise is set at 4.6 percent.
  - An additional \$400 million to improve the quality of housing for military personnel and their families.
  - \$3.9 billion for the first year of expanded health benefits for military retirees (TRICARE for Life) – consistent with legislation passed by Congress last year.
- ▶ **Facing Longer-Term Challenges:** The resolution also provides \$2.6 billion as a down-payment on President Bush’s plan for transforming the U.S. military to meet emerging, and increasingly complex, global threats.
- ▶ **Defense Review:** The budget provides a reserve fund that could be used to address recommendations for the President’s National Defense Review.

## **Healthcare Reform that Modernizes Medicare**

- ▶ The budget provides more than \$6 trillion<sup>1</sup> in funding for all Federal healthcare programs through 2011. This includes funding for the following: medical research; assistance to low-income families to help purchase health insurance; Community Health Centers; the Health Service Corps; initiatives to help reduce the number of uninsured; as well as Medicaid and Medicare.
- ▶ The budget reinforces the Republican belief in responsible healthcare reform that modernizes the Medicare system. Medicare spending is expected to double over the next decade and this unsustainable rate of growth is one of the main reasons the program needs to be reformed. The budget supports the President's goal of Medicare reform, including prescription drug coverage, estimated at \$153 billion over 10 years.
- ▶ To those who argue that plans for tax reduction threaten Medicare, **the Republican budget does not touch the HI surpluses**. The budget is consistent with the provisions of the Social Security and Medicare Lock-Box Act which passed the House on February 13 of this year by a vote of 407-2. Every Democratic Member of the House Budget Committee voted for this legislation. The measure protects the Medicare surpluses from being used for any purpose other than debt reduction or Medicare reform.

## **Saving Social Security for Seniors Today & Tomorrow**

- ▶ Social Security's spending path is unsustainable in the long run. This trend is driven largely by demographics. As demographics change and costs increase, the challenge is to ensure that the Social Security system is strengthened for tomorrow's retirees.
- ▶ The President intends to meet that challenge by establishing a bipartisan commission this spring to put Social Security on a sound and sustainable foundation over the long haul through reform. The Commission will make its recommendations this fall and Congress can act by the end of the year.
- ▶ This budget resolution supports the President's approach through the following specific measures:
  - It assumes provisions of the Social Security and Medicare Lock-Box Act of 2001 which prohibits using Social Security surpluses for any purpose other than debt reduction or Social Security reform.
  - It provides \$7.7 billion for the Social Security Administration [SSA], an increase of \$456 million, or 6.3 percent, above fiscal year 2001 – consistent with the President's budget. The increase will allow SSA to process 100,000 more initial disability claims in 2002 than in 2001.
  - It makes no changes in current Social Security benefits or taxes.
- ▶ The entire \$2.6 trillion surplus is **OFF-LIMITS** to other Washington spending.

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<sup>1</sup>The total of Function 550 and 570 over 10 years.

## **Other highlights of the budget resolution:**

- ▶ **Budgeting for Emergencies:** The non-defense discretionary level also includes a prudent \$5.6-billion emergency set-aside for natural disasters. In the absence of such a planned contingency fund, previous emergency funding measures—viewed as must-pass legislation—have become magnets for special-interest and pork-barrel spending that would not otherwise survive the political and legislative process.
- ▶ **Veterans:** The budget assumes a \$1.7 billion (7.6 percent) increase in discretionary budget authority over the fiscal year 2001 level and a \$3.9 billion (16 percent) increase in mandatory spending for veterans. This would accommodate a big increase in educational benefits under the Montgomery GI Bill
- ▶ **Farmers:** The budget allows for the reform of the commodity title of the Freedom to Farm policy to give farmers the predictability they will need, as opposed to continued *ad hoc* disaster assistance. It anticipates elimination of the estate tax, which will make it easier for farmers to pass on their farms to the next generation. It also leaves room for additional tax reform, such as expanded income averaging provisions and creation of pre-tax farm savings accounts.
- ▶ **FY 2002 Spending Level:** The budget provides \$335.7 billion in non-defense discretionary spending—an overall increase of about 3.5 percent, roughly the rate of inflation. Since 1998 non-defense discretionary spending has grown at an average rate of about 7.4 percent a year.